

**Plan for Employees' Pension of  
the Board of Water and Light -  
City of Lansing, Michigan -  
Defined Benefit Plan**

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**Financial Report  
with Required Supplemental Information  
June 30, 2008**

# **Plan for Employees' Pension of the Board of Water and Light - City of Lansing, Michigan - Defined Benefit Plan**

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## Independent Auditor's Report

To the Honorable Mayor, Members of the City Council,  
and Commissioners of the  
Board of Water and Light  
Plan for Employees' Pension of the Board of Water and  
Light - City of Lansing, Michigan - Defined Benefit Plan  
City of Lansing, Michigan

We have audited the accompanying statement of plan net assets of the Plan for Employees' Pension of the Board of Water and Light - City of Lansing, Michigan - Defined Benefit Plan (the "Plan") as of June 30, 2008 and 2007 and the related statement of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets held in trust for pension benefits of the Plan at June 30, 2008 and 2007 and the changes in net assets held in trust for pension benefits for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 2 through 4 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

*Plante & Moran, PLLC*

September 11, 2008

# Plan for Employees' Pension of the Board of Water and Light - City of Lansing, Michigan - Defined Benefit Plan

## Management's Discussion and Analysis

### Using this Annual Report

This annual report consists of two parts: (1) management's discussion and analysis (this section) and (2) the basic financial statements. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

### Condensed Financial Information

The table below compares key financial information in a condensed format between the current year and the prior two years:

	2008	2007	2006
Assets held in trust:			
Corporate bonds and notes	\$ 20,599,915	\$ 25,836,134	\$ 33,476,140
U.S. government obligations	10,637	13,433	19,051
Common stock	541,649	544,369	16,262,417
Preferred stock	-	964,400	-
Mutual funds	84,722,671	91,408,082	68,038,201
Money market collective fund	1,045,199	5,872,486	2,666,800
Interest and dividend receivable	398,932	517,419	656,394
Total assets held in trust	<u>\$ 107,319,003</u>	<u>\$ 125,156,323</u>	<u>\$ 121,119,003</u>
Changes in plan assets:			
Net investment income	\$ (7,639,656)	\$ 19,225,906	\$ 12,049,362
Benefits payments	(8,535,956)	(9,670,593)	(9,731,595)
Retirees' healthcare premiums	(1,661,708)	(5,517,993)	(1,213,612)
Net change in plan assets	<u>\$ (17,837,320)</u>	<u>\$ 4,037,320</u>	<u>\$ 1,104,155</u>

During fiscal year 2008, net investment income was a negative \$7.6 million due to the decline of the stock market as a whole. We believe this performance is in line with the normal volatility experienced by the stock and bond markets.

Benefits payments in fiscal year 2008 declined by \$1.13 million to \$8.5 million. This decline was due to fewer retirees choosing the lump-sum payout option upon retirement in fiscal year 2008.

The BWL reimburses itself for the cost of retiree healthcare benefits pursuant to Internal Revenue Code Section 420. Reimbursement from the defined benefit pension plan assets is allowed to the extent that excess funds are available for transfer. In fiscal year 2008, the reimbursement to the BWL was limited to the amount of excess funds available, or \$1.6 million.

# **Plan for Employees' Pension of the Board of Water and Light - City of Lansing, Michigan - Defined Benefit Plan**

## **Management's Discussion and Analysis (Continued)**

### **Investment Objectives and Asset Allocation**

The Plan's assets shall be invested in accordance with sound investment practices that emphasize long-term investment fundamentals. In establishing the investment objectives of the Plan, the BWL has taken into account the time horizon available for investment, the nature of the Plan's cash flows and liabilities, and other factors that affect the Plan's risk tolerance. Consistent with this, the BWL has determined that the investment objective is growth and income.

In consideration of the Plan's investment goals, demographics, time horizon available for investment, and the overall risk tolerance of the BWL, a long-term investment objective of income and growth has been adopted for the Plan's assets. The primary objectives of the Plan's assets are to fund all disbursements as they are due, to meet the actuarial rate of return of 7.5 percent, and to earn returns in excess of a passive set of market indexes representative of the Plan's asset allocation.

### **Investment Results**

The fiscal year ended June 30, 2008 saw negative net investment income due to the decline of the stock market as a whole. We believe that this is in line with the normal volatility experienced by the stock and bond markets.

### **Other Changes in the Plan**

In fiscal year 2008, the BWL issued a request for proposal (RFP) for an investment advisor for the defined benefit pension plan. After reviewing the submitted proposals, the BWL chose the Institutional Consulting Group of Merrill Lynch & Co., Inc. as its new investment advisor, effective for fiscal year 2009.

Consistent with the advice of the new investment advisor, the BWL has selected a new asset allocation strategy. The target asset allocation is as follows:

Domestic Large Capitalization Stocks	45%
Domestic Small Capitalization Stocks	10%
International Stocks	14.2%
U.S. Core Fixed Income	30.8%

### **Future Events**

The Plan is currently overfunded at a funding ratio of 127 percent as of February 28, 2008. The fund expects to maintain a funding level above 125 percent, which will allow annual Section 420 transfers into the Postretirement Benefit Plan (VEBA). The Plan expects to make annual withdrawals of \$8,000,000. There are no expected contributions.

# **Plan for Employees' Pension of the Board of Water and Light - City of Lansing, Michigan - Defined Benefit Plan**

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## **Management's Discussion and Analysis (Continued)**

### **Contacting the Plan's Management**

This financial report is intended to provide a general overview of the Plan's finances and to show accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the office of Susan Devon, chief financial officer and executive director of administration at P.O. Box 13007, Lansing, Michigan 48901-3007.

# **Plan for Employees' Pension of the Board of Water and Light - City of Lansing, Michigan - Defined Benefit Plan**

## **Statement of Plan Net Assets**

	June 30	
	2008	2007
<b>Assets</b>		
Receivable - Investment interest receivable	\$ 398,932	\$ 517,419
Investments at fair value:		
Money market collective trust fund	1,045,199	5,872,486
U.S. government obligations	10,637	13,433
Corporate bonds and notes	20,599,915	25,836,134
Mutual funds	84,722,671	91,408,082
Common stocks	541,649	544,369
Preferred stocks	-	964,400
Total investments	106,920,071	124,638,904
<b>Net Assets</b>	<b><u>\$ 107,319,003</u></b>	<b><u>\$ 125,156,323</u></b>

# **Plan for Employees' Pension of the Board of Water and Light - City of Lansing, Michigan - Defined Benefit Plan**

## **Statement of Changes in Plan Net Assets**

	Year Ended June 30	
	2008	2007
<b>Increase - Investment income</b>		
Appreciation (depreciation) in fair value of investments:		
Bonds	\$ (1,154,331)	\$ 402,192
Stocks	(13,416,589)	13,928,325
Total (depreciation) appreciation	(14,570,920)	14,330,517
Interest and dividend income	6,931,264	4,895,389
Total (decrease) increase - Net of appreciation (depreciation) in fair value of investments	(7,639,656)	19,225,906
<b>Decrease</b>		
Benefits payments	8,535,956	9,670,593
Retirees' healthcare premiums (Note 5)	1,661,708	5,517,993
Total decrease	10,197,664	15,188,586
<b>Net Change in Net Assets</b>	(17,837,320)	4,037,320
<b>Net Assets</b>		
Beginning of year	125,156,323	121,119,003
End of year	<u><u>\$ 107,319,003</u></u>	<u><u>\$ 125,156,323</u></u>



# **Plan for Employees' Pension of the Board of Water and Light - City of Lansing, Michigan - Defined Benefit Plan**

## **Notes to Financial Statements June 30, 2008 and 2007**

### **Note 1 - The Plan**

The Plan for Employees' Pension of the Board of Water and Light - City of Lansing, Michigan - Defined Benefit Plan (the "Plan"), a trust fund of the Board of Water and Light - City of Lansing, Michigan (the BWL), is a single-employer, noncontributory, defined benefit, public employee retirement system established and administered by the BWL under Section 5-203 of the City Charter. An employee becomes a participant of the Plan when hired. A participant's interest shall be fully vested when the participant has been credited with seven years of vesting service. The Plan was established in 1939 and has been amended several times, with the latest amendment taking effect on January 1, 2002. Participants should refer to the plan agreement for a more complete description of the Plan's provisions.

The Plan, by resolution of the Board of Commissioners, was closed to employees hired subsequent to December 31, 1996, and a defined contribution plan was established for employees hired after December 31, 1996. Effective December 1, 1997, all active participants in this plan were required to make an irrevocable choice to either remain in this plan (defined benefit) or move to the newly established defined contribution plan. Those participants who elected to move to the defined contribution plan received lump-sum distributions from this plan that were rolled into their accounts in the newly established defined contribution plan. Of the 760 employees who were required to make this election, 602 elected to convert their retirement benefits to the newly established defined contribution plan. As a result of this action, effective December 1, 1997, the Board of Commissioners transferred \$75,116,470 to the newly established defined contribution plan, reflecting the plan participants' accumulated benefits as of said date.

The Plan provides for an annual benefit upon normal retirement equal to the product of the total number of years of credited service multiplied by a percentage equal to 1.80 percent of the highest annual pay during the last 10 years of service, paid in equal monthly installments.

The plan membership consists of the following as of the date of the most recent actuarial valuation for each year presented:

	2008	2007
Retirees and beneficiaries currently receiving benefits	490	494
Terminated employees with vested benefits	16	20
Current employees	50	55
Total participants	556	569

# **Plan for Employees' Pension of the Board of Water and Light - City of Lansing, Michigan - Defined Benefit Plan**

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## **Notes to Financial Statements June 30, 2008 and 2007**

### **Note 2 - Summary of Significant Accounting Policies**

**Basis of Accounting** - The Plan's financial statements are prepared using the accrual basis of accounting in accordance with Governmental Accounting Standards Board (GASB) Statement No. 25, *Financial Reporting for Defined Benefit Pension Plan and Note Disclosures for Defined Contribution Plans*.

**Investment Valuation and Income Recognition** - Plan investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales prices. Investments that do not have an established market are reported at estimated fair value.

Purchases and sales of securities are recorded on a trade-date basis.

Appreciation or depreciation of investments is calculated based on the beginning of year fair value of investments.

The Plan is authorized by Michigan Public Act 55 of 1982 to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

**Expenses** - Substantially all costs and expenses incurred in connection with the operation and administration of the Plan are paid by the BWL, the plan sponsor. The Plan does pay all expenses incurred in connection with the custodial safekeeping account and investment advisor fees, which have been netted with interest and dividend income. Beginning in fiscal year 2008, the Plan began to pay the fees associated with the actuarial evaluation.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

**Regulatory Status** - The Plan is not subject to the reporting requirements of the Employee Retirement Income Security Act of 1974 (ERISA) as it has been established for the benefit of a governmental unit.

# **Plan for Employees' Pension of the Board of Water and Light - City of Lansing, Michigan - Defined Benefit Plan**

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## **Notes to Financial Statements June 30, 2008 and 2007**

### **Note 2 - Summary of Significant Accounting Policies (Continued)**

**Funding Policy** - The Plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. During fiscal years ended June 30, 2008 and 2007, there was not an actuarial required contribution.

**Vesting** - Participants vest at the rate of 20 percent per year after the completion of three years of service. Participants become fully vested at the completion of seven years of service.

### **Note 3 - Cash, Investments, and Fair Disclosure**

The pension trust fund is also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate, debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The Plan's deposits and investment policies are in accordance with statutory authority.

#### **Risks at June 30, 2008**

**Custodial Credit Risk of Bank Deposits** - At the end of the year, the Plan has no bank deposits.

**Custodial Credit Risk of Investments** - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Plan will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Plan does not have a policy for custodial credit risk. At year end, all investments of the Plan were held in the name of the Board of Water and Light and are, therefore, not subject to custodial credit risk.

# Plan for Employees' Pension of the Board of Water and Light - City of Lansing, Michigan - Defined Benefit Plan

## Notes to Financial Statements June 30, 2008 and 2007

### Note 3 - Cash, Investments, and Fair Disclosure (Continued)

**Interest Rate Risk** - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Plan's investment policy does not restrict investment maturities other than commercial paper, which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity
U.S. government or agency bond	\$ 10,637	13.17 years
Mutual funds	15,288,872	5.7 years
Corporate bonds	20,599,915	12.42 years

**Credit Risk** - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Plan has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Mutual funds	\$ 15,288,872	Not Rated	Not Rated
Corporate bonds	4,717,195	A+	S & P
Corporate bonds	2,773,588	A	S & P
Corporate bonds	2,789,575	A-	S & P
Corporate bonds	546,445	AA	S & P
Corporate bonds	2,767,430	AA-	S & P
Corporate bonds	1,313,200	AAA	S & P
Corporate bonds	918,750	BB	S & P
Corporate bonds	1,633,291	BBB+	S & P
Corporate bonds	1,011,571	BBB	S & P
Corporate bonds	2,128,870	BBB-	S & P

**Concentration of Credit Risk** - The Board of Commissioners places no limit on the amount the Plan may invest in any one issuer. As of year end, the Plan does not hold more than 5 percent of its investments in any one issuer.

**Foreign Currency Risk** - The Plan holds no investments in foreign entities, currency, or debt.

# **Plan for Employees' Pension of the Board of Water and Light - City of Lansing, Michigan - Defined Benefit Plan**

## **Notes to Financial Statements June 30, 2008 and 2007**

### **Note 3 - Cash, Investments, and Fair Disclosure (Continued)**

#### **Risks at June 30, 2007**

**Custodial Credit Risk of Bank Deposits** - At the end of the year, the Plan has no bank deposits.

**Custodial Credit Risk of Investments** - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Plan will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Plan does not have a policy for custodial credit risk. At year end, all investments of the Plan were held in the name of the Board of Water and Light and are, therefore, not subject to custodial credit risk.

**Interest Rate Risk** - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Plan's investment policy does not restrict investment maturities other than commercial paper, which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
U.S. government or agency bond	\$ 13,433	14.17 years
Mutual funds	14,068,830	5.24 years
Corporate bonds	25,836,134	13.72 years

# Plan for Employees' Pension of the Board of Water and Light - City of Lansing, Michigan - Defined Benefit Plan

## Notes to Financial Statements June 30, 2008 and 2007

### Note 3 - Cash, Investments, and Fair Disclosure (Continued)

**Credit Risk** - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Plan has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Mutual funds	\$ 14,068,830	Not Rated	Not Rated
Corporate bonds	5,371,780	A+	S & P
Corporate bonds	5,850,027	A	S & P
Corporate bonds	1,623,800	A-	S & P
Corporate bonds	1,063,670	AA	S & P
Corporate bonds	2,837,210	AA-	S & P
Corporate bonds	1,303,834	AAA	S & P
Corporate bonds	1,121,875	BB+	S & P
Corporate bonds	1,156,400	BBB+	S & P
Corporate bonds	2,572,478	BBB	S & P
Corporate bonds	2,935,060	BBB-	S & P

**Concentration of Credit Risk** - The Board of Commissioners places no limit on the amount the Plan may invest in any one issuer. As of year end, the Plan does not hold more than 5 percent of its investments in any one issuer.

**Foreign Currency Risk** - The Plan holds no investments in foreign entities, currency, or debt.

### Note 4 - Realized Gains (Losses) on Investments

Realized gains (losses) on investment sales for the years ended June 30 were as follows:

	2008	2007
Bonds	\$ (98,971)	\$ (381,523)
Stocks	211,400	7,843,854
Total realized gains	<u>\$ 112,429</u>	<u>\$ 7,462,331</u>

# **Plan for Employees' Pension of the Board of Water and Light - City of Lansing, Michigan - Defined Benefit Plan**

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## **Notes to Financial Statements June 30, 2008 and 2007**

### **Note 4 - Realized Gains (Losses) on Investments (Continued)**

Realized gains (losses) on investments are calculated based on the historical cost of the asset. The calculation of realized gains (losses) is independent of the calculation of net appreciation (depreciation) in the fair value of Plan investments. Unrealized gains (losses) on investments sold in the current year that had been held for more than one year were included in the net appreciation (depreciation) reported in the prior year.

### **Note 5 - 401(h) Account**

Effective July 1, 1999, the Plan was amended to include a medical-benefit component, in addition to the normal retirement benefits, to fund a portion of the postretirement obligations for certain retirees and their beneficiaries in accordance with Section 401(h) of the Internal Revenue Code (IRC). A separate account has been established and maintained in the Plan for the net assets related to the medical-benefit component 401(h) account. In accordance with IRC Section 401(h), the Plan's investments in the 401(h) account may not be used for, or diverted to, any purpose other than providing health benefits for retirees and their beneficiaries. Employer contributions or qualified transfers to the 401(h) account are determined annually and are at the discretion of the plan sponsor. At June 30, 2008 and 2007, the amount of excess pension plan assets available for transfer totaled \$1,661,708 and \$5,517,993, respectively; however, such transfers are limited to the total amount of retiree healthcare costs incurred during the year. During the years ended June 30, 2008 and 2007, the Plan transferred \$1,661,708 and \$5,517,993, respectively, to the 401(h) account, of which all such funds were utilized for retiree healthcare costs incurred during the plan year. Accordingly, at June 30, 2008 and 2007, there were no funds remaining in the 401(h) account.

### **Note 6 - Tax Status**

The Plan obtained its determination letter dated March 14, 2002, in which the Internal Revenue Service stated that the Plan, as then designed, was in compliance with the applicable requirements of the Internal Revenue Code. The Plan has since been amended. Management believes the Plan continues to operate as a qualified plan. Therefore, no provision for income taxes has been included in the Plan's financial statements.

## **Required Supplemental Information**

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# **Plan for Employees' Pension of the Board of Water and Light - City of Lansing, Michigan - Defined Benefit Plan**

## **Schedule of Funding Progress (in thousands)**

Valuation Date	Actuarial Asset Value	AAL	UAAL	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
2/28/2003	\$ 137,123	\$ 91,015	\$ (46,108)	151	\$ 5,268	(875.2)
2/29/2004	136,898	89,612	(47,286)	153	4,787	(987.8)
2/28/2005	128,891	86,560	(42,331)	149	4,142	(1,022.0)
2/28/2006	125,630	86,906	(38,724)	145	3,942	(982.3)
2/28/2007	126,212	83,382	(42,830)	151	3,391	(1,263.0)
2/29/2008	113,969	82,423	(31,547)	138	3,162	(997.7)

AAL - Actuarial accrued liability (projected unit credit accrued liability)

UAAL - Unfunded actuarial accrued liability, and negative UAAL indicates a funding excess

# **Plan for Employees' Pension of the Board of Water and Light - City of Lansing, Michigan - Defined Benefit Plan**

## **Schedule of Employer Contributions (in thousands)**

Fiscal Year Ended	Employer Contributions		Percentage of ARC Contributed
	Required	Actual	
6/30/2003	\$ -	\$ -	N/A
6/30/2004	-	-	N/A
6/30/2005	-	-	N/A
6/30/2006	-	-	N/A
6/30/2007	-	-	N/A
6/30/2008	-	-	N/A

ARC - Annual required contribution

# **Plan for Employees' Pension of the Board of Water and Light - City of Lansing, Michigan - Defined Benefit Plan**

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## **Note to Required Supplemental Information Year Ended June 30, 2008**

### **Note - Required Supplemental Information**

The required supplemental information on pages 15 and 16 is designed to provide information about the Plan's progress made in accumulating sufficient assets to pay benefits when due. This information was used to compile the latest actuarial valuation.

Valuation date	February 28, 2008
Actuarial cost method	Projected unit credit
Amortization method	Level dollar over a 15-year period
Asset valuation method	Market value of the assets
Actuarial assumptions:	
Investment rate of return	7.5% per year compounded annually
Projected salary increases	5.0% - 11.0% per year, depending on age
Postretirement - Cost-of-living adjustments	Ad-hoc; none explicitly assumed in liability computations